

## Message Text

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ACTION EUR-12

INFO OCT-01 EA-07 IO-11 ISO-00 EURE-00 SSO-00 NSCE-00

USIE-00 INRE-00 SP-02 AID-05 EB-07 NSC-05 CIEP-01

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FM AMEMBASSY LONDON

TO SECSTATE WASHDC IMMEDIATE 9125

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

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DEPARTMENT PASS TREASURY AND DRB

E.O. 11652: N/A

TAGS: ECON, UK

SUBJECT: WHITE PAPER ANNOUNCES LARGE CUTS IN PUBLIC  
SPENDING

BEGIN SUMMARY. THE GOVERNMENT WHITE PAPER ON PUBLIC EX-  
PENDITURE CONFIRMS THE CHANCELLOR'S PROMISE TO HOLD CON-  
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STANT IN REAL TERMS THE LEVEL OF PUBLIC SPENDING DURING

THE THREE FISCAL YEARS STARTING IN MARCH, 1977. TO ACHIEVE THIS. CUTS OF 3 BILLION POUNDS HAVE BEEN IMPOSED WITH EDUCATION, ROADS AND TRANSPORT, FOOD SUBSIDIES, ENVIRONMENTAL, HEALTH AND PERSONAL SERVICES, AND DEFENSE BEARING THE LARGEST BURDEN. THE WHITE PAPER LEAVES LITTLE DOUBT THAT THE WEIGHT OF PUBLIC SECTOR SPENDING HAS SHIFTED FROM CONSUMPTION TO INVESTMENT. ADDITIONAL RESOURCES OF 500 MILLION POUNDS ARE EARMARKED FOR IMPROVING INDUSTRIAL PRODUCTIVITY. HIGHER TAXES ARE LIKELY SO AS TO LIMIT THE GROWTH OF PRIVATE CONSUMPTION IN ORDER TO FREE RESOURCES FOR EXPORT AND INVESTMENT. THIS MESSAGE WILL TOUCH ON THE HIGHLIGHTS OF THE WHITE PAPER. ANALYSIS FOLLOWS IN A SEPARATE MESSAGE. END SUMMARY.

1. AFTER A DELAY OF TWO MONTHS, THE GOVERNMENT PUBLISHED ITS ANNUAL WHITE PAPER ON PUBLIC EXPENDITURE COVERING THE FIVE FISCAL YEARS THROUGH 1979-80. SPENDING IN THE FISCAL YEAR BEGINNING IN MARCH HAS BEEN INCREASED BY 480 MILLION POUNDS ABOVE THE AMOUNT STATED IN LAST YEAR'S WHITE PAPER. IN PART, THESE ADDED RESOURCES STEM FROM THE THREE PACKAGES OF MEASURES ANNOUNCED IN SEPTEMBER AND DECEMBER 1975 AND LAST WEEK TO REDUCE UNEMPLOYMENT AND STIMULATE INVESTMENT.

2. WHILE NO DETAILS ARE GIVEN, THE WHITE PAPER CONFIRMS THE GOVERNMENT'S INTENTION TO INTRODUCE ANNUAL CASH LIMITS ON SPENDING PROGRAMS ACCOUNTING FOR 75 PERCENT OF TOTAL EXPENDITURE. MOREOVER, THE CHANCELLOR HAS BEEN TRUE TO HIS PROMISE THAT NO INCREASE WILL BE ALLOWED IN THE VALUE OF PUBLIC SPENDING DURING THE THREE FISCAL YEARS FOLLOWING 1976/77. ON THIS POINT THE WHITE PAPER SPECIFICALLY STATES, "THE GOVERNMENT'S PURPOSE . . . WAS TO ENSURE THAT THE INCREASE IN NATIONAL OUTPUT OVER THE NEXT THREE OR FOUR YEARS IS NOT APPROPRIATED FOR USE IN THE PUBLIC SECTOR, BUT INSTEAD IS AVAILABLE TO PUT THE BALANCE OF PAYMENTS RIGHT, TO PROVIDE FOR INCREASED PRODUCTIVE INVESTMENT, AND TO ALLOW A MODEST RATE OF INCREASE IN PRIVATE CONSUMPTION."

3. THE VOLUME OF PUBLIC EXPENDITURES EXPRESSED IN 1975 LIMITED OFFICIAL USE

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SURVEY PRICES IS SCHEDULED TO RISE FROM 51.17 BILLION POUNDS IN THE 1975/76 FISCAL YEAR TO 53.32 BILLION IN 1979/1980. SIXTY-ONE PERCENT OF THE PROJECTED 2.15 BILLION POUND INCREASE IS PLANNED FOR THE FISCAL YEAR BEGINNING APRIL 1, 1976 WITH THE REMAINDER SPREAD OVER THE FOLLOWING THREE FISCAL YEARS. THE AVERAGE ANNUAL RATE OF INCREASE IN PUBLIC SPENDING HAS BEEN LOWERED TO 0.4 PERCENT DURING THE PERIOD 1976/77 TO 1979/80. THIS IS

BROADLY IN LINE WITH THE CHANCELLOR'S REPEATED PROMISE  
TO HOLD THE VOLUME OF PUBLIC SPENDING FLAT FOR THE RE-  
MAINDER OF THE DECADE.

4. TURNING TO THE CHANGES BETWEEN THE CURRENT WHITE  
PAPER AND THE ONE PUBLISHED IN JANUARY 1975, SUBSTANTIAL  
CUTS ARE EVIDENT IN VIRTUALLY ALL PROGRAMS. THE FOLLOW-  
ING TABLE LISTS THE TOTAL CHANGES IN EXPENDITURE PRO-  
GRAMS SINCE THE LAST WHITE PAPER. THE AMOUNTS ARE STATED  
IN MILLIONS OF POUNDS IN 1975 SURVEY PRICES (I.E., PRICES  
PREVAILING WHEN THE SURVEY WAS COMPILED IN NOVEMBER  
1975). DECREASES ARE INDICATED BY PARENTHESES.

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	1975/76	1976/77	1977/78	1978/79
DEFENCE	(9)	(134)	(173)	(198)
OVERSEAS AID	(145)	(56)	(58)	(63)
AGRICULTURE	463	(39)	(105)	(205)
TRADE, INDUSTRY AND EM- PLOYMENT	397	578	478	492

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## NATIONALISED INDUSTRIES.

CAPITAL EXPENDITURE	503	77	(249)	(324)
ROADS AND TRANSPORT	24	(133)	(324)	(506)
HOUSING	5	(175)	(284)	(365)
OTHER ENVIRONMENTAL SERV.	52	(78)	(128)	(224)
LAW, ORDER AND PROTECTIVE SERVICES	26	6	(51)	(110)
EDUCATION	28	(84)	(331)	(618)
HEALTH	4	(39)	(93)	(152)
SOCIAL SECURITY	173	464	301	39
OTHER PUBLIC SERVICES	47	45	65	54
COMMON SERVICES	5	(7)	(32)	(49)
NORTHERN IRELAND	16	53	-	(45)
CIVIL SERV STAFF COSTS	-	.	(50)	(140)
TOTAL	1,589	480	(1,034)	(2,414)

5. FROM THIS TABLE, IT IS CLEAR THAT THE ONLY PROGRAMS TO EMERGE UNSCATHED ARE "TRADE, INDUSTRY, AND EMPLOYMENT" AND SOCIAL SECURITY. THE ADDITIONAL RESOURCES SUBSTANTIATE THE GOVERNMENT'S COMMITMENT TO THE NEW INDUSTRIAL STRATEGY LAUNCHED LAST NOVEMBER. IN THE CASE OF SOCIAL SECURITY PAYMENTS, SHORT-RUN GOVERNMENT CONTROL IS DIFFICULT BECAUSE SUCH OUTLAYS ARE DETERMINED BY CONJUNCTURAL FACTORS UNDER THE RUBRIC OF GENERAL SUPPORT FOR INDUSTRY, THE NATIONAL ENTERPRISE BOARD WILL RECEIVE IN EQUAL ANNUAL INSTALLMENTS THE ONE BILLION POUNDS PROVIDED FOR IN THE INDUSTRY ACT OF 1975. ABOUT 250 MILLION POUNDS WILL BE AVAILABLE OVER THE NEXT TWO YEARS FOR SELECTIVE ASSISTANCE TO INDIVIDUAL INDUSTRIES, FIRMS AND UNDERTAKINGS. EMPLOYMENT SERVICES AND INDUSTRIAL TRAINING ARE SCHEDULED FOR ANNUAL ALLOCATIONS OF ABOUT 100 AND 200 MILLION POUNDS RESPECTIVELY. THIS REPRESENTS GAINS OF BETWEEN 200 AND 300 PERCENT OVER THE AMOUNTS PREVAILING BETWEEN 1970 AND 1975. FINALLY, THE REFINANCING OF FIXED

RATE EXPORT CREDITS IS BUDGETED TO CONTINUE AT ANNUAL LEVELS OF ABOUT 400 MILLION POUNDS UNDERLINING THE GOVERNMENT'S FIRM INTENT TO KEEP BRITISH EXPORTS COMPETITIVE.

6. COMMENT. THE WHITE PAPER IS A FRANK ADMISSION BY THE GOVERNMENT THAT TRADE-OFFS BETWEEN CONSUMPTION AND INVESTMENTS ARE NO LONGER AVOIDABLE. THERE IS A CLEAR WARNING LIMITED OFFICIAL USE

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ING THAT PRIVATE CONSUMPTION WILL HAVE TO BE LIMITED TO A GROWTH RATE BELOW THAT OF NATIONAL OUTPUT SO THAT RESOURCES CAN BE DIVERTED TO REVIVING BRITISH INDUSTRY AND REPAYING THE CUMULATIVE BALANCE OF PAYMENTS DEFICITS OF THE LAST DECADE. HOWEVER, PRIVATE CONSUMPTION IS NOT ALONE IN BEING SQUEEZED FOR ADDED RESOURCES. PUBLIC CONSUMPTION HAS BEEN SHORN OF ITS STATUS AS A SACRED COW. PUBLIC EXPENDITURE ON GOODS AND SERVICES IS SLATED TO DECLINE AT AN ANNUAL RATE OF 1 PERCENT FROM 1976/77 THROUGH 1979/80 TRANSFER PAYMENTS, GRANTS, SUBSIDIES, LOANS AND INTEREST ARE TO DROP AT AN ANNUAL 0.6 PERCENT OVER THE SAME PERIOD.

7. LOUD PROTESTS ABOUT THE SIZE AND NATURE OF THE PLANNED CUTS ARE INEVITABLE FROM CIVIL SERVANTS WHO ANTICIPATE LAYOFFS, FROM LABOR BACKBENCHERS OPPOSED TO MAJOR CUTS IN THE PUBLIC SECTOR ON IDEOLOGICAL AND HUMANITARIAN GROUNDS, AND FROM THE TORIES WHO WILL REGARD THE CUTS AS TOO LITTLE AND THE THREAT OF HIGHER TAXES AS UNTHINKABLE. (SIR GEOFFREY HOWE, THE SHADOW CHANCELLOR, HAS ALREADY BEGUN THE ATTACK.) WITHIN THE GOVERNMENT, ADVOCATES OF A STRONG COMMITMENT TO A MEDIUM-TERM STRATEGY THAT PERMITS A FLOW OF NEW RESOURCES INTO INVESTMENT AND EXPORTS AT THE EXPENSE OF INCREASES IN PUBLIC AND PRIVATE CONSUMPTION ARE IN THE DRIVER'S SEAT. FOR A LABOR GOVERNMENT, THIS IS NO MEAN ACHIEVEMENT. SPIERS

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## Message Attributes

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